DOW THEORY FORECASTS®

# Growing your income

Growth matters, and we all know it, even if we don't realize we know.

Picture yourself as a recent college graduate diving into the work world. After an extensive job hunt, you receive two offers:

• Company A offers you an entry-level job paying $25,000 per year, with opportunities for advancement if you prove yourself.

• Company B offers you a similar job paying $50,000 per year, but only if you commit to work there for 20 years at that salary.

Which job is better?

While both offers have appeal, graduates with confidence in their ability should probably accept the first offer because it allows the potential for higher income over time and doesn't cap their earnings power. To double your earnings in 20 years, your pay must rise at an annualized rate of 3.5% over that time, a pace that smart, competent workers can exceed by being promoted up the ranks.

Now picture yourself as an investor choosing between two stocks:

• Company A yields 4% but generates no earnings growth, so the dividend will likely remain constant.

• Company B yields 2% but has a history of strong dividend growth.

The investors face a different scenario than the entry-level worker, but a similar choice. Regular readers know which option we typically select — the one with dividend-growth potential.

Stocks with strong three-year dividend growth have historically delivered total returns (including dividends) slightly better than those of high-yield stocks. However, stocks with both solid yields and strong three-year dividend growth outperformed stocks that look good based on just one metric.

Higher-yielding stocks tend to earn lower Quadrix® Overall scores, while stocks with dividend growth enjoy higher scores. The stronger the dividend growth, the higher the Overall score. Not surprisingly, the *Forecasts* gravitates toward stocks with dividend growth.